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Business Briefs

Public Policy

Volcker says: cut wages further

In an interview Aug. 20 on the Public Broadcasting System's "McNeil-Lehrer Report," Federal Reserve Board Chairman Paul Volcker stated, "Among other things, there are a lot of—a big cycle of wage agreements coming along. I hope they reflect better expectations about inflation, and we see a reduced rate of cost increase, and that means an economy with two-thirds of the cost wages—a lower rate of wage increase."

It was not clear from his syntax whether Volcker meant that U.S. wages should be reduced to two-thirds of their current level, or whether wage increases should be two-thirds lower. Nonetheless, reduced wage levels are developing as a consistent Volcker theme. In Congressional testimony in early August, Volcker said that the living standards of the nation must be lowered to prevent inflation.

Agriculture

World grain production at record level

According to the latest U.S. Department of Agriculture report on world crop production, total world grain production in the 1981-82 season is forecast to reach a record 1.6 billion metric tons, 4 percent or 63 million tons more than last year. This includes wheat, coarse grains, and oilseeds.

The projection is a reduction of the previous month's estimate due to deterioration of crops in the Soviet Union, both Western and Eastern Europe, and China, largely due to adverse weather conditions.

But the drop in output was held to a minimum by the fact that improved U.S. crop conditions promise record-breaking production in the United States.

World wheat production is projected to hit 455 million tons, 4 percent above last year despite an overall reduction of European output. Coarse grain output is forecast at a record 763 million tons, 5 percent above last year despite reduced production in the U.S.S.R., Europe, and China.

Oilseed production—soybeans, sunflower, and rapeseed—is forecast at 175 million tons, down 7 percent from a year ago due to adverse weather in Europe and reduced soybean acreage planted in Brazil.

Development Policy

IMF/World Bank have secret study on Africa

On Sept. 27, the International Monetary Fund (IMF) and World Bank will reveal a major two-year study on Africa, outlining a 10-year economic program for the continent. The study was recently completed by the joint IMF and World Bank Development Committee. This subgroup, along with the ministerial-level Interim Committee of the IMF, are the two most important policy-setting bodies for the IMF/World Bank apparatus. Their annual deliberations which this year occur from Sept. 26 to Sept. 28, set the decisions for the IMF annual conference which begins Sept. 29 and runs to Oct. 2.

It is expected that the study on Africa, which is titled *Action Program for Sub-Saharan Africa*, will establish strict guidelines for forcing African countries to meet payments deficits through harsh programs of "resource mobilization." The effect would be a reduction of already substandard living standards.

In line with the Africa report, UNCTAD will unveil at an international conference Sept. 1 in Paris an "Action Program for the Least Developed Countries."

A 250-page compendium, the UNCTAD study calls for concentrating trade transactions involving the poorest nations strictly within the Third World, along what is currently being dubbed "South-South" lines.

The original proposal for "decoupling" large sections of the Third World from access to capital equipment goods in the advanced sector was launched in 1979 by the New York-based Council on Foreign Relations in its compendium titled "Project 1980s."

UNCTAD General-Secretary Gamani Correa has been drumming up support for "decoupling" within the Third World on grounds that trade with developed nations runs the risk of "cultural imperialism."

At a highly secretive meeting last May in Caracas, Venezuela of the Group of 77 Third World member nations, Correa called upon the poorest nations of the world to "mobilize their resources" through self-sufficiency to finance their payments deficits.

Trade

East bloc deals increase for Germany

West Germany's trade with Eastern European nations has grown by 5.3 percent in real terms in 1980, according to the Federal Statistical Office, an above-average result compared to other major trading areas.

Trade with Comecon nations now represents 5.3 percent of Germany's total foreign trade, and new orders have been accumulating since the beginning of the year.

The Düsseldorf-based engineering giant Mannesmann announced at the end of August the signing of a contract for sale of 550,000 tons of steel pipes to the Soviet Union, over and above the already-concluded mammoth deal of the Siberian natural gas pipeline. German experts are currently reviewing a Soviet offer for establishing a shipping/railroad link between the northeastern Federal

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Republic port of Kiel, and the Soviet Union, which Soviet Prime Minister Tikhonov proposed should also involve East Germany and Poland.

Banking

Citibank steals cash from customers

Already notorious for mishandling individual accounts, Citicorp's corporate and retail banking division in New York has instituted a number of new procedures in its cash-management policy which have given Citicorp free play with customer cash for periods ranging from one to three days.

Preliminary estimates are that Citibank branches are working up several billions of dollars worth of "float" for the company to play with. "This is highway robbery, theft," an exasperated corporate controller for a major Citibank account declared last month, upon learning of suspicious cash deficits in the company's account.

In April, Citibank told a large percentage of corporate clients the bank would no longer issue payroll checks against uncollected funds.

In August, it sent out notice—*after* the policy change was introduced—that credit card deposits would no longer be recognized as having the status of cash funds, but somewhat like checks, would take a three-day period for clearance.

Citibank also failed to inform clients that at several branches, cash deposits placed after 2:15 p.m. certain days of the week would only be registered 24 hours later.

In the hours between 2:15 p.m. and 3:00 p.m., Citibanks's corporate retail accounts handle up to $3 billion citywide. It is not yet known what percentage of this cash is now finding its way into Citicorp's "suspension account," an in-house fund, accessed interest-free from depositors, for 24 hours of banking business.

Municipal Finance

American cities face bankers' dictates

Cities throughout the U.S. are facing the prospect of economic and social chaos this fall, to be triggered in many cases by a combination of budget deficits and the unavailability of funds in the credit markets.

In late August, the city of Chicago was forced to withdraw a $100 million bond issue because it could not pay the interest rates the investment banks demanded. Even state governments find it difficult to raise funds for short-term debt issues to tide over their budgets until tax revenues come in.

Cities and states are thus increasingly turning to the New York banks to handle their financing needs, and in turn are being forced to allow those banks to "monitor" their budgets. At least five cities—New York, Detroit, Cleveland, Chicago, and Washington, D.C.—have hired Lazard Frères' Felix Rohatyn to straighten out their finances. Each has had its services cut and new laws passed granting huge giveaways to speculators and free enterprise-zone equivalents; in Detroit, "local development corporations"—LDCs—have been established to build rickety housing and bust the building trades unions.

In Chicago, at the same time the bond issue was withdrawn (with the large Chicago banks refusing to provide a penny to the city) the School Finance Authority set up by Rohatyn and run by the unsavory Pritzger real-estate family has rejected the school board's budget for the coming year, on the spurious grounds that the 1982-83 budget projection shows too great a deficit.

This will almost certainly force a school shutdown and possibly wreck the teachers' union. The Chicago Transit Authority faces another 50 percent fare increase by Jan. 1 because of the bond issue's failure. Property taxes have been raised, and services cut.

Briefly

- **PAUL VOLCKER** is going to Brazil Sept. 8-9, in a first-time-ever exercise of Federal Reserve diplomacy in the Third World. Volcker's task is to explain to the Brazilians why U.S. interest rates have not yet come down as he promised earlier this year.

- **FRANCOIS MITTERRAND's** government is floating its first large bond issue, at a record breaking rate of 16.5 percent. Even French institutional investors are dragging their feet despite heavy finance ministry pressure and the fact that the securities yield 3 percent above inflation.

- **FRANCE** has invited the IMF to attend the next round of Polish debt talks, to be held Sept. 9 in Paris, although the Giscard government had refused to do so earlier this year. According to Le Monde of Aug. 21, the Mitterrand administration took the step at the urging of American banks.

- **THE FEDERAL** Reserve Board approved Aug. 25 the Midland Bank of Great Britain's takeover of the San Francisco-based Crocker National Bank, the nation's 12th largest bank. Crocker has $19 billion in assets.

- **THE CARTER** administration first initiated Reagan's policy of cutting 50,000 jobless workers from the extended benefits rolls, slicing the program in half last September, but Carter postponed full elimination for electoral reasons.

- **THE PENTAGON** reports that unemployed pilots and airline mechanics have been flocking into the Air Reserve and National Guard, despite much lower pay levels.

- **ARSON** is leveling off in New York City, officials claim. The *New York Times* noted Aug. 28 that the soaring cost of replacing burned-out buildings may make arson less profitable.